

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of

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Jurisdictional Separation Reform
And Referral to the Federal State
Joint Board

CC Docket No. 80-286

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APR 14 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

REPLY COMMENTS OF AMERITECH

I. INTRODUCTION

Ameritech hereby replies to the comments in this proceeding related to the issues raised in the State Members' Report on Comprehensive Review of Separations filed on December 21, 1998 ("the Report").

Despite its aspirations, the Report was not viewed by the commenters as "a vehicle down a constructive path toward comprehensive separations reform in an expedited fashion."¹ In fact, few of the commenters would agree that the discussion of issues raised in the Report has furthered the NPRM's goals of simplification and eventual elimination of the separations process.

In addition, the Report's proposal for a three-year rolling average of separations factors was generally criticized, while the USTA proposal to freeze separations was widely supported by commenters. Indeed, the USTA proposal is made even more compelling in light of the comments of some parties who continue to view separations reform as an opportunity to advance their self-interest through the manipulation of jurisdictional allocators. USTA's proposal is competitively neutral and maintains the principles of cost causation.

¹See the Report at p. 1.

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Therefore, the Joint Board should proceed without further delay to adopt the USTA proposal to freeze the categorized relationships and separations apportionment factors until true separations reform is completed or competition eliminates the need for a separations process.

II. CONSIDERATION OF THE ISSUES IN THE REPORT SHOULD NOT DELAY TRANSITIONAL REFORM OF SEPARATIONS.

Taken as a whole, the commenters' discussion of the issues identified in the Report, e.g. confiscation, the effects of new technologies, etc., was academic and does not advance the NPRM's goals to simplify the separations process in furtherance of the Telecom Act's deregulatory policy framework. At most, the parties' comments on a few of the issues should be considered in a later context of comprehensive reform.

III. THE THREE-YEAR ROLLING AVERAGE PROPOSAL LACKS SUPPORT; THE JOINT BOARD SHOULD ADOPT THE USTA PROPOSAL.

As shown in Ameritech's initial comments, the Report itself failed to identify or support the benefits of its three-year rolling average proposal. The post-comment record still lacks any support for the Report's proposal. In fact, commenters were nearly unanimous in opposing the proposal and pointing out that it would increase administrative burdens and create other anomalies.

On the other hand, the USTA freeze proposal fulfills the NPRM's criteria by being competitively neutral and easy to implement. The majority of commenters support it as a transition mechanism. Therefore, it should form the basis for the Joint Board's recommendation for transitional reform.

IV. THE JOINT BOARD SHOULD NOT ADOPT PIECEMEAL CHANGES OF SELF-SERVING COMMENTERS.

The Joint Board should be wary of any AT&T comments which are preceded by the phrase "(t)he only separations changes that are currently needed are those that AT&T identified

in its December 10, 1997 Comments in this proceeding.”² The changes proposed by AT&T are clearly more self-serving rhetoric designed to reduce its interstate access charges. Not surprisingly, AT&T has proposed several ways to reduce interstate allocations. In particular, AT&T’s proposals in the following areas are suspect:

UNE AND INTERCONNECTION COSTS

AT&T proposes to remove the costs associated with unbundled network elements (UNEs) and interconnection pre-separations using embedded costs. Adoption of this methodology is akin to allowing AT&T to “have its cake and eat it too”. AT&T supports the use of forward-looking costs to develop UNE rates, but then wants the forward-looking costs converted to embedded costs and removed from separations. This is patently unfair to those companies with UNE costs. Ameritech does not dispute that the UNE cost must be removed from separations in some fashion, but the procedure proposed by AT&T would potentially remove costs not recovered by UNE revenues.³ A more appropriate method and one which is consistent with the revenues received is to assume that UNE revenues equal the forward looking costs and to develop a pre-separations expense adjustment consistent with the revenues received. This will ensure no double recovery of UNE costs.

“HIDDEN” INVESTMENTS

AT&T also assumes that legitimate spare plant is “hidden” plant investment. As stated in our January 26, 1998 Reply in this proceeding “Ameritech does not have excessive capacity, which should be disallowed.”⁴ Investments made by Ameritech were made to provide for customer needs, now and in the future. The “future” would include the purchase and

²See AT&T comments on State Joint Board Members’ Report, filed March 30, 1999, p. 3

³For purposes of this proceeding, Ameritech makes no statement as to whether any state commission determined UNE pricing is fully compensatory.

development of newer technologies to respond to customer demands. A prudent investor plans for the present and for the future in the purchase of plant investment. AT&T's assumption should be disregarded.

MARKETING EXPENSE

AT&T also again challenges the allocation of \$591 million of ILEC marketing expense for recovery from interstate access. This is an old complaint. The marketing expense issue was extensively debated during access reform. The Commission agreed at that time that a portion of marketing should be recovered from access charges. "Special access and interexchange services are purchased by, and marketed to, retail customers. It is therefore appropriate to allow rates for those services to continue to include recovery of marketing expenses."⁵ After downward exogenous adjustments were made to the remaining baskets, the Commission provided for recovery of these revenues from end users rather than through per minute charges to the interexchange carriers.

In short, the FCC has adequately addressed this issue in the Access Charge Reform Order and it is unnecessary and improper to address it further in this proceeding.

LOOP COSTS ALLOCATION

AT&T's self-interest is most apparent in its proposal to change the allocation of loop costs. AT&T proposes to change the current interstate allocation from a frozen 25% to a 15% allocation. This change alone would shift over \$4 billion to the intrastate jurisdiction. Most of these costs would be unrecoverable by companies under price caps, and companies under rate of return regulation would face costly delays and uncertainty in attempts to recover these costs. Before the Joint Board could even begin contemplate such a massive reallocation, many issues

⁴See Reply Comments of Ameritech, filed January 26, 1998, p. 4.

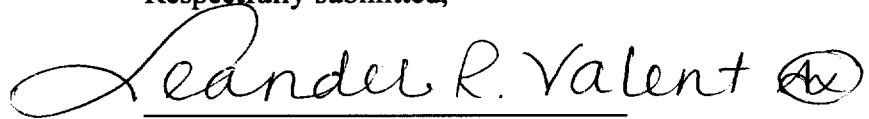
need to be addressed first, e.g., universal service and rate rebalancing. AT&T's loop proposal should be ignored.

V. CONCLUSION

Ameritech respectfully urges the Joint Board to quickly move past the issues and recommendations in the State Members' Report and of parties who would manipulate jurisdictional allocators for their own self-interest. The Report's three-year rolling average proposal is unsupported and should not be given further consideration. In contrast, the USTA freeze proposal, which is easily implemented and competitively neutral, clearly achieves a proper balance of the criteria set by the Commission in its NPRM.

The Joint Board should recommend a transitional separations reform plan based on the USTA proposal. In doing so, it will also best anticipate the day when the separations process is made wholly unnecessary as competition removes the need for regulations itself.

Respectfully submitted,

A handwritten signature in cursive script that reads "Leander R. Valent". To the right of the signature is a circled "A" or similar mark.


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April 14, 1999

⁵See Access Charge Reform, CC Docket 96-262, First Report and Order released May 16, 1997, ¶ 323

CERTIFICATE OF SERVICE

I, Debb J. Krocka, do hereby certify that a copy of Ameritech's Comments on the State Members' Report has been served on the parties on the attached service list, via first class mail, postage prepaid, on this 14th day of April, 1999.

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